



Core Specialty to become top 20 E&S player with Hallmark specialty deal

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Core Specialty has confirmed the acquisition of certain Hallmark Financial Services' commercial specialty operations in a \$59.9mn transaction, with the deal elevating the Jeff Consolino- and Ed Noonan-led company into a top 20 excess and surplus (E&S) lines carrier based on 2021 data.

Under the terms of the transaction, Core Specialty has paid a \$40mn cash consideration for the specialty commercial operations, along with an estimated \$19.9mn for the acquisition costs associated with certain net unearned premium reserves.

The announcement comes after The Insurer revealed earlier this week that Hallmark was working on a deal that would see its specialty business transfer to Core Specialty.

AM Best responded to the deal by placing Hallmark Financial's A- (Excellent) financial strength rating and "a-" (Excellent) long-term issuer credit rating under review with negative implications.

The rating agency acknowledged the additional influx of capital will be a net positive for policyholders but said "significant execution risk remains related to restoring profitability across Hallmark's retained lines, particularly standard commercial insurance and personal nonstandard auto".

Core Specialty said the acquired Hallmark operations represent the portion of the Dallas, Texas-based carrier's specialty commercial segment that is distributed through the wholesale insurance brokerage channel, known as Hallmark E&S.

According to Core Specialty, Hallmark E&S produced \$436mn of wholesale distributed E&S lines business in the 12 months to 30 June 2022.

Based on 2021 data compiled by AM Best, the combined Core Specialty and Hallmark operations would rank among the 20 largest E&S in the US with \$992mn in direct premiums written.

Complementary deal

Core Specialty said that it operates through a business unit philosophy that allows its divisions local decision-making for underwriting, claims and policy servicing “with a high degree of autonomy and full accountability”.

The Hallmark E&S business lines complement Core Specialty’s directors and officers management professional liability, excess casualty, Lancer commercial auto, healthcare professional liability and property divisions and will be integrated into the existing Core Specialty business units, the company said.

“In addition, Hallmark E&S brings Core Specialty a new E&S contract binding capability,” it added.

Core Specialty expects the transaction will be accretive to its 2023 earnings per share and return on equity.

The Cincinnati, Ohio-based firm has drawn \$130mn under its unsecured revolving credit facility to support future business to be underwritten by Hallmark E&S and to pay the \$40mn cash purchase price.

Supports E&S push

“Core Specialty’s vision is to become the leading specialty insurer and the Hallmark E&S acquisition continues our very strong progress in our mission,” said founder, president and CEO Consolino.

“Core Specialty has the capital to take on risk, the underwriting talent in place, a proven and decisive leadership team and a track record of making things happen fast. Collectively and in each of our specialist niche business units, we intend to operate with strong entrepreneurial spirit and drive, speed, agility, and empowered decision-making.

“Hallmark has done an admirable job of assembling and nurturing this profitable business which strongly complements Core Specialty’s business. The combined businesses are well aligned for continued profitable growth,” Consolino added.

The transaction is comprised of nine business units within Hallmark’s specialty commercial business segment, along with certain assets and liabilities related to those operations.

It does include Hallmark’s commercial auto, E&S casualty, E&S property and professional liability business units.

Core Specialty’s acquisition of the specialty operations also includes Hallmark’s agency subsidiary Heath XS LLC, which does business as Hallmark E&S, as well as all data, agency relationships, intellectual property, lease arrangements and personnel related to the acquired E&S businesses.

Core Specialty has also acquired the rights to the ongoing wholesale distributed E&S business underwritten by Heath XS for Hallmark insurance company affiliates and the net unearned premium reserve portfolio of approximately \$82mn related to Hallmark E&S.

Heath XS will continue to underwrite policies issued by those Hallmark affiliates, and those policies will be fully reinsured by StarStone National during a transition period that will expire at Q3 2023's close. At that point, StarStone Specialty, Core Specialty's E&S subsidiary, is expected to become the policy-issuing carrier.

The transaction excludes loss reserves associated with business previously underwritten by Heath XS for insurance affiliates of Hallmark.

Veteran Dupre to be retained

Under the terms of the deal, Hallmark E&S' management and approximately 176 employees based in Dallas, Atlanta and Jersey City will transition to Core Specialty.

Industry veteran Gerald Dupre Jr, currently president and chief underwriting officer of Hallmark's specialty commercial segment, will join Core Specialty as part of the transaction in a leadership role within the combined E&S business.

The newly minted deal does not involve Hallmark's standard commercial business segment or its personal business operation.

Nor does it include Hallmark's aerospace and programs business unit, its exited binding primary auto platform, or any business that is produced by third-party program managers, including its senior care and a commercial auto program.

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Jeff Consolino, Core Specialty founder, president and CEO

The transaction will not see Core Specialty acquire any insurance company entities. The deal also excludes loss reserves associated with the acquired E&S businesses, which will be retained by Hallmark.

"Hallmark expects the approximate \$59.9mn increase in statutory capital (less transaction and other expenses), gain on sale, and associated capital relief to strengthen its balance sheet and result in a more disciplined and streamlined company, better positioned to focus on the execution of its business strategies," Hallmark said.

The acquisition and assumption of the E&S businesses and the related assets and liabilities by Core Specialty was effective as of 30 September 2022.

Core Specialty is being provided financial advisory services by JP Morgan, while Skadden Arps Slate Meagher & Flom LLP is serving as its transaction counsel.

Raymond James & Associates is providing financial advisory services to Hallmark in connection with the transaction, while Olshan Frome Wolosky LLP is serving as legal counsel.